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mand, the political and financial instability of foreign governments and unfavorable conditions of exchange. In favor of the export trade there should be considered, not merely the percentage of gain per unit of goods exported, but also the economies from

larger production thus made possible; its educational value by reason of the greater intellectual demands it makes; and the development of closer international ties. The advantages of foreign trade are not measured merely in dollars and cents.

Imports, the Tariff and American Foreign Trade

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THE tariff policy of the United States since our Civil War has been dominated by the purpose to protect and encourage the development of new industries. During most of the time, the political party which avowedly favored this policy has been in power at Washington, and during the short periods that the opposition was in power it could not undertake to make very radical changes. Even if one accepts the doctrines of free trade as theoretically sound he is forced to admit that a people who possess a country of vast natural resources, like the United States, capable of supporting a great population and of developing a variety of industries, will be inclined naturally to use their governmental powers to hasten such development. They are not likely to be content to await the slower processes of unaided growth. Practically all new countries adopt the policy of stimulating development, the daughter dominions of free-trade England as well as the others.

That the policy of protection has been effective in hastening the development of this country, diversifying its industries and increasing its population, will be admitted by many who think the time has come now for giving greater consideration to balanced and mutually advantageous trade with other countries.

The main purpose of the protective policy in the past has been to get our domestic industries into a more balanced state, with factories to supply our own wants and to employ a population which would create a home market for our agricultural products. The policy of protection was not pursued to promote foreign trade. We have not been acting with a view to developing foreign markets. We have not been thinking about foreign markets, or planning to enter them with manufactured goods. In fact, the argument for protection has been based upon the theory that we could not compete successfully with foreign goods in open markets.

In recent years, however, our attitude in this respect has been changing. In many lines of goods our producers have demonstrated their ability to compete in the markets of the world and to maintain a profitable and growing volume of sales. What they have done, there is reason to believe that others can do, if they have a fair chance, and the interests of those who are building up an export business are beginning to clash with the interests of those who claim that they must have protection to enable them to succeed even in the home market. I propose to set forth briefly some of the points where these interests come in conflict.

Let us consider first the matter of exchange rates, just now so obvious and important a factor in foreign trade. In the past we have been a debtor nation, borrowing capital continually from the older and richer countries of Europe for use in our development. This capital came to us largely in the form of industrial equipment and manufactured goods, and upon it we had to pay regular interest or dividend returns. These payments were made by shipments of our products, largely foodstuffs and raw materials for the European industries, and upon the whole it is estimated to have taken products worth about \$500,000,000 annually to cover what have been called the "invisible" items in the account against us. That is to say, we had to have a balance of trade in our favor on merchandise account of about \$500,000,000 in order to cancel all charges against us. If the balance in a given year happened to be more than that, we could buy back some of our securities with the surplus, and if it happened to be less than that, we could sell some of these securities on the other side. Now the war has made a radical change in this situation. It seems quite possible that instead of there being a net balance against us on the "invisible" account in international relations, we may have a balance in our favor of \$500,000,000 per year.

How are foreign countries to pay us \$500,000,000 per year, not to speak of paying the principal of the indebtedness? There is only one way of making a final settlement, and that is by goods. It is true that payment may be postponed by giving us obligations payable in the future, or transferring interests in properties in Europe or in other parts of the world. The administration of President Wilson is understood to have been favorably disposed toward funding the accruing interest upon the foreign obligations for several

years. This, however, is simply piling up the amount coming to us, and it will have to continue piling up until we receive payment in tangible property of some kind.

While under pre-war conditions we were obliged to have a favorable trade balance of about \$500,000,000 per year in order to meet our obligations abroad, hereafter foreign countries will need to have about such a balance in their dealings with us, in order to meet their obligations.

The ordinary method of making payments between countries is by going into the exchange market and buying bills of exchange arising out of current trade. When goods are sold a draft or bill of exchange is drawn against them and this is commonly sold in the public market, and purchased by parties who have payments to make in that country. This is all very simple so long as international trade is approximately in balance, but when the payments are running heavily one way it becomes difficult to obtain bills sufficient to meet them, and rates of exchange upon the country where the heavy payments must be made rise to a premium. This situation is so abundantly illustrated in the exchange market at the present time that it is scarcely necessary to elaborate upon it. There is not a single country in the world whose inhabitants can obtain the means of making payments in the United States without paying a premium, and the premiums range from ten to several hundred per cent.

It is true that to some extent these premiums represent a depreciation of the currency of the foreign countries, but it is also the inevitable result of a one-sided state of trade, and the situation shows the futility of striving to build up a one-sided trade. There is no object in trying to sell goods to customers who can not pay for them.

We do not want pay in the paper money of other countries—they can not pay in gold, and paper promises signify nothing but postponement, with interest charges which must be added to the uncollectible principal. A one-sided trade can not continue indefinitely, even if the debtor country is willing to pay the premium upon exchange, for somebody must buy the exchange and it can not be sold unless there is a prospect that it can be collected at some definite date in the future.

As this situation dawns upon the comprehension of our people who have been accustomed to thinking that we must have a favorable balance of trade in order to have prosperity, their perplexity and distress is apparent. Some of them do not hesitate to declare themselves in favor of canceling all of Europe's foreign debt to the United States rather than accepting payment in goods. But even that will not dispose of the goods. If we refuse to accept them, they will be sold in the markets of the world, and will interfere with the exportation of goods from the United States, and thus may affect the prices of goods in the United States.

If we expect to have any commercial relations with the world whatever, we must consent to reciprocal relations. If we have any interest in procuring foreign customers, we must give some thought to the means by which they will be able to make payment, and there is no way in which they can make payment save in the goods of their own production. In other words, it is idle for us to talk of developing foreign trade if we mean only the development of export business. Trade consists of exchange of products.

It follows, therefore, that if we wish to allow our producers who are able and desirous of competing in foreign markets to do so, we must allow goods of foreign production to be sold in our

markets to balance those exports. We will put an unbearable handicap upon our exporters by restricting imports to an extent which will cause foreign exchange charges to rise against them.

Of course, that is not the only handicap which a protective tariff places upon our producers who desire to sell in foreign markets. If a duty is imposed upon raw materials, as for instance, wool and hides, the effect is to raise the cost of finished goods, thus placing our producers of cloth and shoes at a disadvantage as compared with the producers of other countries, who do not have such duties to pay. Moreover, any import charges which increase the cost of living to wage-earners and require compensating additions to wages, have the same effect. Duties upon wool and hides have this effect. The duties upon food products have been of small consequence in the past, because we have been exporters of such products and prices upon them in this country have not been above prices in other countries, but that is not wholly true now.

Import duties are being strongly urged at this time for the purpose of raising the prices of foodstuffs in this country, although this means raising the entire level of industrial costs, and must seriously affect our ability to manufacture for export. This is advocated in the face of the fact that the average value of all the farming land in the United States more than doubled in the ten years from 1900 to 1910, and doubled again from 1910 to 1920. Is it possible that such a policy, which prevents the natural development of foreign trade, can benefit the country?

The people who advocate prohibitory tariffs are actuated by a mistaken idea that without such protection foreign countries will flood us with goods and ruin our industries. This is an illusion, for other countries can no more

sell to us without taking products in exchange than we can sell to them without so doing. The rule of goods for goods is binding on all countries. If a great trade balance should develop against us, as feared, exchange rates would turn about and set up a barrier against imports more flexible and effective than any that can be established by law.

No country desires to give its products away. They all want to sell for the purpose of acquiring something else. The greatest exporting countries, excepting those that are debtor countries and obliged to apply a portion of their exports upon their obligations, usually import more goods than they export. Great Britain before the war was the greatest of exporting countries, and imported more than she exported. In the five years immediately preceding the war, Germany's imports exceeded her exports.

No country produces more upon the average than it consumes or adds to its stock of wealth, nor is there any danger that any country will do so. Nations do not consume all that they produce, or produce all that they consume. They find it advantageous to exchange some of their products for the products of other countries. It is mutually advantageous to do so but each country consumes practically the equivalent of its own production. Nothing is to be gained by arbitrary interference with the desires of the individuals to make these exchanges, nor is it possible to interfere with the movement of goods in either direction without having that action interfere with the movement in the other direction.

People talk in a timid way about the possibility of a flood of goods from countries like Japan and China, where the wage rate is much below that in the United States, but those countries have no facilities for making an overwhelming amount of goods, and if they could

make them they would either consume them or trade them for an equal amount of goods of our production. There would be enormous markets for our goods in Japan and China if they could produce something with which to pay for them.

People get unduly excited by fixing their attention upon one fact only in a situation, without taking account of modifying conditions. They lose the proportions. Thus, the receipts of butter at five important markets, Boston, Chicago, Milwaukee, St. Louis and San Francisco, as given by the *Year Book of the Department of Agriculture*, in 1916, aggregated 490,000,000 pounds, which gives only a suggestion as to the total production of the country. In eleven months of 1920, ending with November, the imports of butter were 33,418,000 pounds and the exports, 16,983,101 pounds; and the butter industry is thought by some people to be menaced by these importations, although in the aggregate of all trade, every one of the countries exporting butter to us, imported much more than it exported to us. For instance, one of these countries was Canada, whose total imports of all commodities from us in the eleven months named aggregated in value \$910,122,277, with total exports to us of \$552,244,139.

It would be ludicrous, if it were not so serious, to observe the conflicting activities of committees of Congress, in laboring to promote exports, by appropriating money on a great scale for the maintenance of a merchant marine, commercial representatives over the world, and in numerous other ways, while at the same time they are going carefully over the list of imports with a view to stopping every crevice by which goods may creep into the country. Facilities by which foreign customers may make payments to us are more important than any additional facilities for increasing sales.